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MEMORANDUM

TO: Paul Garnett
Telecommunications Access Policy Division
Wireline Competition Bureau, FCC

FROM: Michael J. Travieso, People's Counsel

RE: Summary of Remarks

DATE: June 17, 2002

This is a summary of remarks I intend to make on behalf of NASUCA as a panel member on June 21, 2002. This summary may not necessarily be what I will have as prepared statement or handout at the public meeting.

NASUCA opposes major structural changes to the contribution mechanism. NASUCA opposes a connection-based assessment system and, instead, urges the Commission to recognize that the total available interstate revenue contribution base is rising, not falling. The solution is to assess the interstate wireless and data services

providers on a basis similar to that used to assess interexchange carriers (IXCs).

NASUCA will make the following points:

1. The size of the fund is growing. The existing contribution base has remained relatively stable. For the period from 1999 to 2001, the contribution base has moved from \$74.6 billion to \$79.9 billion, while the size of the fund has more than doubled, from \$2.25 billion to \$5.46 billion. Changing the contribution mechanism will not address this problem.
2. According to the Commission's August, 2001 report, Trends in Telephone Service, at Table 11.3, total interstate switched access minutes, including both wireless and wireline, have increased every year since 1985, with a 21% increase between 1996 and 2000. If the existing artificial cap on wireless assessments (15% of total wireless revenues) were removed, the interstate traffic and revenues lost by IXCs to the wireless companies would become part of the assessable revenue base.
3. Increasing the assessable interstate revenue base with interstate wireless revenues, as well as interstate revenues generated by data, voice over Internet and broadband companies, would certainly lower the assessment rate on IXC revenue. In turn, the assessment rate would also be lowered on the bills of wireline telephone customers. Lowering those bills, instead of adding another increase beyond the SLC increase, would have some impact on reducing consumer frustration with the FCC. In order to lower consumers' bills, it is not necessary to use a connection-based mechanism. In fact, increasing the contribution base would lower phone bills for all phone consumers, not just high volume long-distance users.
4. The use of a connection based mechanism would violate 47 USC §254(d), which requires every carrier that provides interstate telecommunications services to contribute on an equitable and non-discriminatory basis to a mechanism to support universal service. Because the connection based system would only require IXCs to contribute for services like special access services to multi-line business customers, IXCs providing interstate usage services but not direct access services would not contribute anything to support universal service. That would be a clear violation

of §254(d). Even IXC's selling access lines would contribute far less than the 63% of the fund they now supply. The reason the IXC's have put forth this plan is simply to cut their expenses. The role of the FCC is not to solve business problems for phone companies.

6. Changing to a connection based mechanism would raise the bills of the forty percent of residential customers who make few or no long-distance calls and lower the bills of the twenty percent of customers with the highest use by something in the range of \$5 to \$6 per month. This shift in revenue responsibility within the class of residential customers is inequitable. Consumers who make heavy use of interstate services should contribute more to a fund based on assessments on carriers providing interstate services than consumers who make little or no use of interstate services.
7. There is no guarantee that increases in the size of the fund, such as the one that will be caused by the implementation of the Commission's MAG order, will not require increases in the per-line assessments.
8. The Commission has previously specifically rejected a per-line approach. There have been no changes in circumstances, either unanticipated or not actually caused by the Commission itself, which would support a change in policy.
9. The use of a per-line assessment would not alleviate consumer complaints about the complexity of their telephone bills. Consumers hate line item surcharges whether they vary each month or stay the same. Low use long-distance consumers will be equally confused and perturbed about paying an unavoidable charge on their local phone bill which is twice as much as they used to pay to support a service they don't use. Failure to pay this charge could lead to termination of local phone service.
10. Increasing the contribution base by properly assessing all of the providers of interstate phone services would solve the problems of IXC's with falling revenues that are assessed based on historical revenues. Assessments on IXC's as a whole would go down if other interstate carriers were added to the contribution base. Thus, any discrepancies

- would be reduced. This issue could also be addressed by shortening the reporting lag and using true-ups.
11. The contribution mechanism does not have to be changed to address the huge and varying markups of IXC USF contribution costs that IXCs place on consumers' bills as part of the USF charge. For an assessment contribution rate of 6% or 7%, many carriers charge 11 or 12% to their customers. This means that IXCs pay the fund 6 cents out of every dollar of interstate revenue, but collect 11 cents from consumers. Therefore, a huge portion of the amount paid by consumers, approximately 45% in many instances, goes directly to the IXCs and not to the fund. This level of markup on the payment of a regulatory fee is absurd. The simplest way for the FCC to protect consumers from IXC efforts to subsidize their competitive business by overcollecting on a regulated charge is to prohibit line item USF surcharges. If the FCC believes it can mandate a flat rate line item surcharge to recover USF contributions, then it can hardly claim that it does not have the authority to prohibit line item surcharges altogether.
 12. If the FCC prohibited line item USF surcharges of any kind, companies paying into the fund would be forced to recover these payments as part of their cost of doing business, just as they do now for virtually all of their other expenses such as interest payments on their bonds or property-related expenses. This system would force the efficient management of the companies' USF contribution program. Markups would drop dramatically. Retail goods and services would be more accurately priced, allowing consumers to compare real prices. Companies would seek to reduce these expenses because their competitors would be doing the same thing. Consumers' bills would go down. Even if the FCC adopted a policy that permitted no markups on contributions and retained a revenue-based surcharge system, consumers' bills would go down for the same reason.
 13. NASUCA urges the Commission to retain a revenue-based assessment system; to expand the contribution base and the kinds of companies required to make contributions; to prohibit companies from collecting more from consumers in a USF charge than they pay into the fund; and, to prohibit any carriers paying into the fund to bill consumers for that expense through a line item surcharge.